

THE WALL STREET JOURNAL.

Wholesale Inventories Build Up

By Jeff Bater
February 8, 2008

WASHINGTON -- U.S. wholesalers' inventories piled up at the highest rate in more than a year during December as sales plunged, a worrisome sign that unsold goods were piling up on shelves as the economy braked.

Wholesale inventories increased 1.1% at a seasonally adjusted \$411.60 billion, after rising a revised 0.8% during November, the Commerce Department said Friday. Originally, inventories in November were seen 0.6% higher.

The 1.1% increase in December inventories exceeded Wall Street analyst expectations for a 0.3% climb. The increase was the biggest since a matching advance in August 2006.

Sales of U.S. wholesalers fell by 0.7% in December to a seasonally adjusted \$376.65 billion after surging a downwardly revised 1.9% in November, Friday's data showed. Originally, November sales were seen up 2.2%.

Mounting inventories can be a good sign for the economy, suggesting firms have confidence demand is rising and are, in turn, stocking up to satisfy customers. But it can also mean an unwanted buildup caused by receding demand. The economy slowed dramatically at the end of 2007, with gross domestic product rising just 0.6% after soaring 4.9% during the third quarter. A pileup in inventories does not bode well for future production of goods -- or for future economic growth.

The amount of wholesale goods on hand relative to sales increased during December. The inventory-to-sales ratio measures how many months it would take for a firm to deplete its current inventory. The ratio rose to 1.09 from 1.07 in November.

On a year-to-year basis, sales were 10.6% higher, while inventories rose 6.1% since December 2006.

Wholesalers' inventories of durable goods -- meant to last three or more years -- increased 0.9% in December, after increasing 0.4% in November. Automotive stocks surged 3.5% after rising 2.6% in November. Inventories of metals increased 1.7%. Inventories of electrical goods rose 1.2%.

Durable goods sales fell by 2.0% in December, after rising 0.4%. Auto sales tumbled 2.2%, but furniture sales decreased 2.4% and computer equipment plunged 4.0%.

Nondurable goods inventories increased 1.6% in December. Petroleum rose 9.2%. December non-durable goods sales increased by 0.4%. Farm products sales were 0.6% higher.